ONTARIO SECURITIES COMMISSION

1998 ANNUAL REPORT

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LETTER TO THE MINISTER

September 30, 1998

The Honourable Ernie Eves, Q.C.
Minister of Finance
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

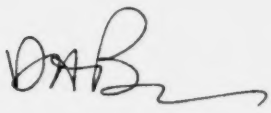
Dear Minister,

I am pleased to submit to you the Ontario Securities Commission's Annual Report for the fiscal year ended March 31, 1998.

It has been a year of significant development and change for the Commission, none of which would have been possible without your assistance and support. On November 1, 1997, the OSC became a self-funded Crown corporation. This fundamental change opens the way to realizing our vision for the OSC to become an agency which does what it sets out to do, an agency which is renowned as one of the world's preeminent regulators, an agency that creates and aggressively enforces clear and unambiguous rules, an agency seen as effectively protecting investors while ensuring efficient capital markets capable of supporting economic growth and job creation in the Province.

I thank you and your staff at the Ministry of Finance for your support and interest throughout the year, and look forward to continued cooperation.

Sincerely,



David A. Brown
Chair

MESSAGE FROM THE CHAIR AND EXECUTIVE DIRECTOR

As we only assumed our positions as Chair and Executive Director of the Commission after the end of the reporting period, we feel it is appropriate for the body of the Report to speak for itself. We would, however, like to acknowledge several of the significant achievements made by our predecessors during the reporting period and to share our sense of excitement about the coming year at the OSC.

Agency Transition – A New Direction for the OSC

On November 1, 1997, the OSC was converted to an independent, self-funded Crown Corporation. This means that we became a corporate entity with statutory powers and responsibilities but also with all of the powers of a natural person.

We can set our own budgets, hire our own personnel, determine our own priorities, with the confidence that, within reason, funding will be available. We are in the fortunate position that historically, annual fee revenue has exceeded by a wide margin the costs of providing the OSC's service. Indeed, we are committed to gradually lowering the fee levels until equilibrium has been achieved.

In other words, we are much more in control of our own destiny than at any time in the past and, we are advised by others with long experience in the regulatory field, to an unprecedented degree amongst any securities regulators in the world. The resources at our disposal and the independence we have been granted will enable us to carry out our mandate in a thorough, effective, proactive and timely manner.

Mutual Reliance Review System – A Virtual National Securities Commission

In a regulatory environment such as securities regulation in Canada, featuring as it does 10 separate securities regulators (12 including the two territories), one must be particularly concerned about the potential for regulatory fragmentation of what is, essentially, one capital market.

David A. Brown
Chair

104-07490/

Various unsuccessful attempts have been made to achieve a national securities regulatory regime over the last three decades. The Canadian Securities Administrators (or the CSA as we now call ourselves collectively) buckled down to formalizing the system which they had been evolving around mutual reliance. The mutual reliance review system, or MRRS, instituted by the CSA, during this reporting period, has effectively created a Virtual National Securities Commission.

Investing the staff time and other resources of the Commission to ensure that the MRRS succeeds will be a key focus for us in the coming months.

Mutual Fund Regulatory Reform – Regulating a Keystone of our Capital Market

The process which began with the commissioning of the Stromberg study in 1995 continued to bear fruit in this reporting period and set a solid foundation for additional significant initiatives which will be implemented during 1998/99.

Improved and simplified disclosure, governance of fund management, recognition of a self regulatory organization (SRO) for mutual fund dealers are among the more significant actions included in the Commission's plan to continue the reform of mutual fund regulation.

The need to maintain this area of focus by the OSC is driven by the significant role played by mutual funds in the growth and health of our capital markets and as the investment vehicle of choice for the majority of individual investors.

Compliance and Enforcement – An Intelligently Aggressive Approach

During the reporting period, the efforts of our Compliance and Enforcement teams produced, amongst other things, the National Compliance Review and a series of significant hearings detailed in the Enforcement Highlights on pages 16 - 18 of this report. We intend to build on these results by increasing the resources in both of these important areas.

Securities regulation must be premised on the fact that the vast majority of the market participants want to understand and comply with the rules. Our approach will rely heavily on self-compliance and self-assessment. Consequently, for those who breach the rules, the penalties will be severe. For others, we want to become known as a regulator who understands the markets we serve and the challenges faced by market participants to be innovative in meeting customer demands. We will use our rule-making powers to ensure a level playing field with clear and unambiguous rules of play, rules with flexibility to allow players to shape their businesses to respond to changing market demands, so long as investors may invest with confidence in the integrity of those markets. However we will patrol the boundaries of that field with new and increased resources. Stepping out of bounds will have serious consequences.

John A. Geller, Q.C. and Brenda Eprile – A Solid Foundation for the Future

That the OSC has managed to set and maintain a strategic program of regulatory reform, which included the very significant restructuring of the Commission and the monumental policy and rule reformulation project, has been directly attributable to the enormous dedication and commitment of a highly professional staff and to the leadership and direction they had from our predecessors, John (Jack) A. Geller, Q.C., and Brenda Eprile.

We both arrive at our new roles at the OSC to find the foundation and structure in place to achieve the vision which we have for the OSC – an agency which does what it sets out to do, an agency which is renowned as one of the world's preeminent regulators, an agency that creates and aggressively enforces clear and unambiguous rules, an agency seen as effectively protecting investors while ensuring efficient capital markets for compliant users.

We are grateful to Jack and Brenda for the legacy they have left for us.

David A. Brown
Chair

Charles F. Macfarlane
Executive Director

Charles F. Macfarlane
Executive Director

MANDATE, GOALS AND FOCUS

OUR MANDATE

To protect investors from unfair, improper or fraudulent practices, and to foster fair and efficient capital markets and confidence in their integrity.

OUR GOALS

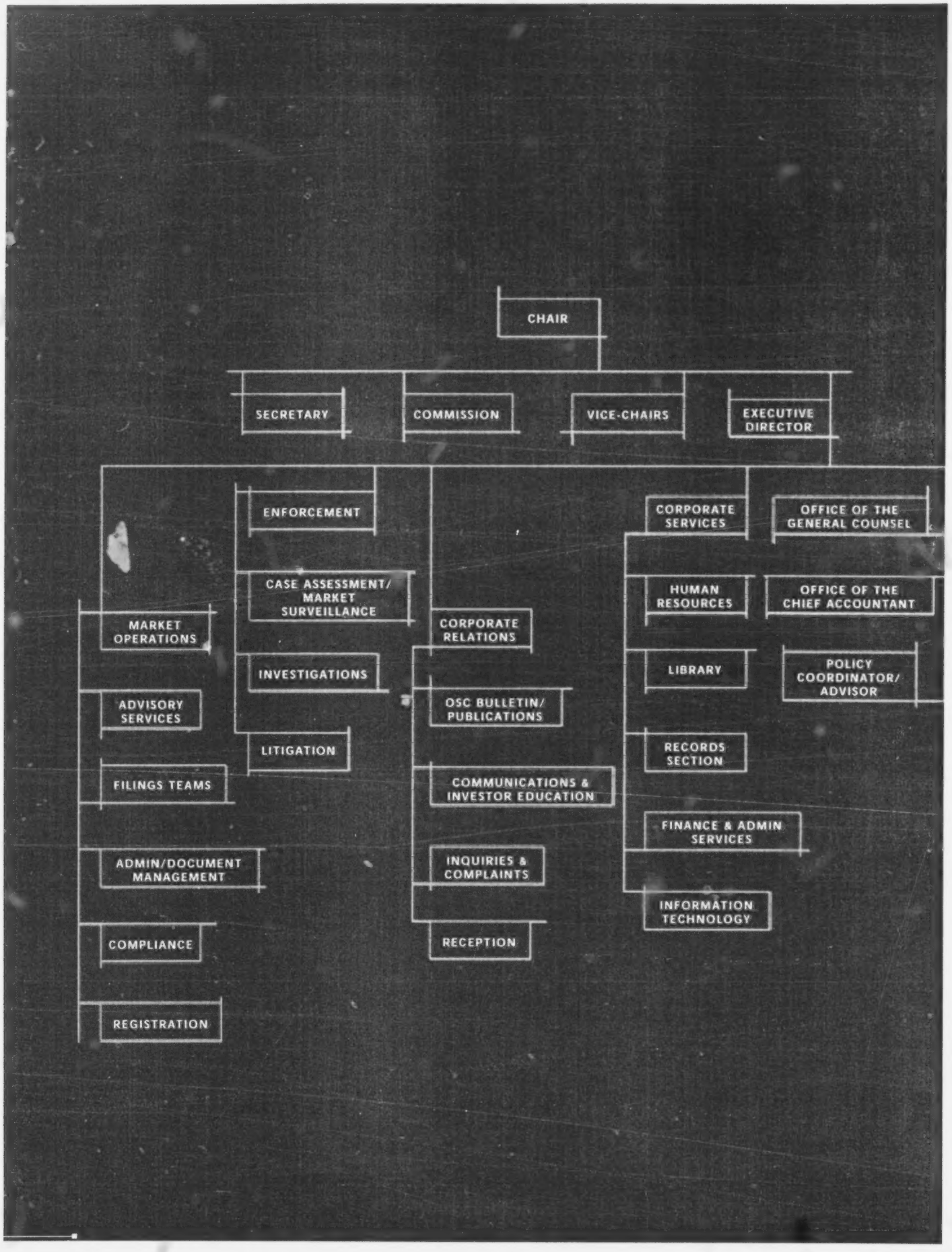
In the context of its statutory mandate, the goals of the OSC are to support economic growth in Ontario by:

- providing an efficientand effective regulatory environment
- enhancing Ontario's competitiveness within the international economy
- maintaining Ontario as an attractive investment destination

OUR FOCUS

In the pursuit of these goals, the OSC will be a relevant and constructive force in the growth of the Ontario capital market and economy and in the protection of investors by:

- in cooperation with other Canadian Securities Administrators, maintaining and improving the regulatory framework for an effective and efficient securities marketplace
- investigating and bringing proceedings with respect to serious infractions of securities law
- encouraging and supporting self-regulation of the securities markets and implementing effective oversight of self-regulatory organizations
- using education to encourage honest and fair practices
- assisting market participants in complying with regulatory requirements


CHAIR
SECRETARY
COMMISSION
VICE-CHAIRS
EXECUTIVE DIRECTOR
ENFORCEMENT
CASE ASSESSMENT/ MARKET SURVEILLANCE
INVESTIGATIONS
LITIGATION
MARKET OPERATIONS
ADVISORY SERVICES
FILINGS TEAMS
ADMIN/DOCUMENT MANAGEMENT
COMPLIANCE
REGISTRATION
CORPORATE RELATIONS
OSC BULLETIN/ PUBLICATIONS
COMMUNICATIONS & INVESTOR EDUCATION
INQUIRIES & COMPLAINTS
RECEPTION
CORPORATE SERVICES
OFFICE OF THE GENERAL COUNSEL
HUMAN RESOURCES
OFFICE OF THE CHIEF ACCOUNTANT
LIBRARY
POLICY COORDINATOR/ ADVISOR
RECORDS SECTION
FINANCE & ADMIN SERVICES
INFORMATION TECHNOLOGY

THE ONTARIO SECURITIES COMMISSION

The OSC is the regulatory body responsible for overseeing the securities industry in Ontario. It administers the ***Securities Act****, and the* ***Commodity Futures Act*** *as well as certain provisions of the* ***Ontario Business Corporations Act****.*

The OSC registers individuals and companies who give advice about or trade in securities or futures contracts. It reviews prospectuses, monitors continuous disclosure documents and conducts compliance reviews of registrants, issuers and other market participants. It grants discretionary exemptions from the registration, prospectus and other requirements in the *Securities Act*. It investigates possible violations of Ontario securities law and commences proceedings before the Commission or prosecutions before the Ontario Court of Justice (Provincial Division).

The economy of Ontario relies on capital markets to play a pivotal role in the capital formation and wealth creation process. A strong capital market also generates significant jobs in the financial services section. The OSC encourages markets that are efficient, open and fair so that viable businesses can raise financing, and investors can have confidence in market integrity. Markets are "efficient" when capital can be raised and securities traded quickly and without unnecessary costs or impediments. Markets are "open" when current, complete and comparable public information about issuers and market activity is available. Markets are "fair" when investors' interests come first and investors are protected from market abuses.

Regulatory activities must be visible, understandable and cost-effective in order to maintain public confidence in the OSC. In achieving these aims and fulfilling our mission, the *Securities Act* sets out the principles that guide our activities:

- effective and responsive securities regulation requires timely, open and efficient administration and enforcement
- integration of capital markets is supported and promoted by the sound and responsible harmonization and co-ordination of securities regulatory regimes
- the enforcement capabilities and regulatory expertise of recognized SROs should be relied upon by the OSC, subject to appropriate oversight
- business and regulatory costs and restrictions should be proportional to the significance of the regulatory objectives sought to be realized
- an appropriate balance between protecting investors and fostering fair and efficient markets must be achieved.

The Commission is an independent administrative tribunal, the members of which are appointed by Order-in-Council, and is composed of a full-time Chair, up to two full-time Vice-Chairs and six to eleven other Commissioners who serve on a part-time basis. The Commission formulates policy, makes rules, sits as an administrative tribunal in hearings, hears appeals from

decisions made by the Executive Director and staff, hears appeals from decisions of The Toronto Stock Exchange, The Toronto Futures Exchange and the Investment Dealers Association of Canada, exercises discretion respecting securities regulatory requirements and makes recommendations to the Minister of Finance for changes in legislation and regulation.

The OSC comprises three operating branches, supported by the Corporate Services Branch, and the advisory offices of the Chief Accountant, the General Counsel and the Policy Coordinator/Advisor.

The Market Operations Branch reviews company disclosure and applications for discretionary relief, licenses market participants and reviews proficiency, capital, and sales practices, oversees self-regulatory organizations and develops Commission policy.

The Enforcement Branch assesses complaints, analyzes trading activities, conducts investigations, provides litigation support to the Market Operations Branch and the Office of the General Counsel, and conducts proceedings before the Commission and the Ontario Court of Justice (Provincial Division).

The Corporate Relations Branch develops and manages the Commission's approaches to relations with its various constituencies. It is responsible for a centralized public inquiry service, a public/investor education program and a corporate communications strategy.

The Office of the General Counsel provides legal advice to the Commission and staff. The Office of the Chief Accountant provides advice on accounting and auditing matters to the Commission and staff. The Policy Coordinator/Advisor manages policy projects by coordinating small, flexible project teams.

The Corporate Services Branch provides information technology, human resources, finance, purchasing and other support services to the Commission.

THE YEAR IN REVIEW

Agency Transition
Mutual Reliance
Mutual Funds Regulatory Reform
Responding to Task Force Reports
Rule Reformulation
Web Site
National Compliance Review
Year 2000
Civil Liability for Continuous Disclosure
An Integrated Disclosure System
Continuous Disclosure Review Program
Investor Education

Agency Transition

The 1997-98 fiscal year was a year of significant transition for the Ontario Securities Commission. On November 1, 1997, amendments to the *Securities Act* were proclaimed, continuing the Commission as a corporation without share capital composed of members appointed by the Lieutenant Governor in Council.

The amendments to the *Securities Act* allow the Commission to retain the revenue it generates from fees and establish it as an independent employer responsible for hiring its own staff and managing its own administrative support. The members of the Commission also serve as the corporation's Board of Directors and are responsible for overseeing the management of the financial and other affairs of the Commission. The legislation permits the Commission to make by-laws which are subject to the approval of the Minister of Finance. The accountability structure parallels the rule-making structure established in the 1994 amendments to the *Securities Act*. In January 1998, by-laws establishing the governance framework and conflict of interest requirements for the restructured Commission were published in the *OSC Bulletin*.

The additional resources and increased operational flexibility provided by the new structure will enable the Commission to respond more effectively to the needs of its constituents. Early in the fiscal year, the Commission completed a rigorous business planning process which established operational goals for each program area and set out expected budget requirements for the next three years. Staffing levels are planned to increase to approximately 300 over the first two years of the plan, with the focus on increasing resources in the compliance and enforcement areas. The Commission also began the process of developing results measurements to effectively monitor its effectiveness in meeting its goals and to ensure it remains accountable for its use of resources.

The Commission committed to a thorough review of its fee structure in consultation with the securities industry and other Canadian jurisdictions with the goal of aligning total fees with the costs of regulation by the year 2000/2001. As first steps in this process, the secondary market fee and fees relating to the transfer of registrants from one employer to another were eliminated effective September 1, 1997.

The establishment of terms and conditions of employment is a key priority of the Commission. On November 1, 1997, the OSC entered into a service agreement with the Ministry of Finance to ensure the provision of securities regulatory services while the Commission developed terms and conditions of employment and built the administrative infrastructure required to operate more independently. Under the terms of the service agreement, staff providing securities regulatory and related support services remained employees of the Ministry of Finance and the OSC is billed monthly for their services. The Ministry also continues to provide administrative support services.

In January 1998, the OSC engaged KPMG Actuarial, Benefits & Compensation Inc. to conduct a comprehensive total compensation review for the new organization. Work is well underway to finalize the detailed compensation design and the Commission is committed to working closely with the Ministry of Finance to ensure the smooth transfer of staff. The staff transfer is anticipated to take place well before the end of 1998.

The Commission has also begun to develop and acquire the information systems it requires to support its new status. Arrangements are underway to implement asset management, financial information and payroll systems.

Mutual Reliance Team: (from left)
Kathryn Soden
Julia Dublin, Rose Fergusson, Amy Macfarlane
Margo Paul, Nancy Ross
Absent from photos: Winfield Liu

Mutual Reliance

Market Operations staff, working with other CSA staff, have proposed for Commission approval a mutual reliance system which will be implemented in the areas of prospectus review, applications, and registration of advisors and SRO dealers. Mutual reliance means that in exercising discretion a Canadian securities regulatory authority is prepared to rely primarily on the review of staff of another authority. Each authority will retain its statutory discretion. Mutual reliance will make the Canadian capital markets more efficient by streamlining regulatory review and reducing regulatory costs. Filers will generally deal only with one securities regulatory authority. It is expected that mutual reliance will lead to harmonized legislative requirements and administrative practices across jurisdictions and will provide consistent treatment of filers in Canada.

Mutual Funds Regulatory Reform

The Commission, and the other members of the Canadian Securities Administrators, remain committed to reform in the regulation of investment funds.

The Commission believes that the increasing importance of mutual funds in the retirement planning of Canadians requires more effective regulation of the sale of mutual funds to ensure appropriate capital, records and sales practices are established and maintained by mutual fund dealers. The Commission has facilitated a process whereby the Investment Dealers Association of Canada and The Investment Funds Institute of Canada have pooled their expertise to establish the new Mutual Fund Dealers Association. The MFDA will act as a national self-regulatory organization to oversee the activities of mutual fund dealers in all provinces and territories, except for Québec. The activities of the MFDA will in turn be reviewed by the Canadian securities regulatory authorities. The Board of Directors of the new MFDA has begun the process of establishing an administrative framework and its membership rules.

On May 1, 1998, a national rule to restrict the sales practices followed by members of the mutual fund industry came into effect in Ontario and elsewhere in Canada. National Instrument 81-105 Mutual Fund Sales Practices regulates the sales and business practices followed both by managers of publicly offered mutual funds, and by dealers and their sales representatives and establishes certain minimum standards of conduct for industry participants. The rule is designed to minimize the conflicts between the legitimate commercial goals of industry participants and

Mutual Funds Regulatory Reform:
Paul Bourque, Rebecca Cowdery

their fundamental obligations at law toward investors. Staff of the Commission participates on a committee struck by The Investment Funds Institute of Canada to ensure that industry participants become familiar with the rule and understand how it applies to specific sales practices. Staff of the Commission is also monitoring compliance with the rule.

In addition to continuing work on the rewriting of National Policy Statement No. 39, staff of the Commission, together with other CSA staff, are reviewing the recommendations for improvements in mutual fund governance contained in the Stromberg Report and the companion report of the Investment Funds Steering Group.

The OSC and the other members of the CSA published for comment in July 1998 a proposed national instrument to replace the simplified prospectus system for mutual fund disclosure. Proposed National Instrument 81-101 Mutual Fund Prospectus Disclosure will require funds to prepare a short concise fund summary document to be delivered to prospective investors and to make available a more complete fund prospectus for those investors who wish more information. The proposed disclosure rule will require mutual fund prospectus documents to be written in plain language and to communicate specific essential information about the mutual fund.

Responses to Task Force Reports

Report of The Toronto Stock Exchange Committee on Corporate Disclosure

The final report of The Toronto Stock Exchange Committee on Corporate Disclosure (the "Allen Report") was released last year. In response, the CSA publicly indicated support for the principal recommendations in the Allen Report and established a working group of staff from several Commissions across Canada to draft the legislation necessary to give effect to those recommendations. That legislation has been recommended by CSA members to their governments, and was published for comment by several CSA members in May of this year.

TSE Report on Market Fragmentation

In May 1997, the OSC published a Request for Comments and Notice of Forum regarding Non-SRO Electronic Trading Systems. Twelve parties made submissions in response to the request for comments.

On April 23, 1998, the Commission, the Alberta Securities Commission, the British Columbia Securities Commission, Commission des valeurs mobilières du Québec and the Saskatchewan Securities Commission held a joint forum where representatives of the Commissions heard submissions by interested parties.

Staff is preparing a recommendation regarding the regulation of such electronic trading systems.

Small Business Financing

Staff's first step, in reviewing the Task Force Report on Small Business Financing, was to review the recommendations in the Report relating to the creation of a small business prospectus form. Upon completion of its review, staff recommended to the Commission against pursuing an alternative prospectus regime for small business financings, since the essential concepts will be reflected in the proposed rules regarding Long Form Prospectus Requirements and the National Escrow Regime applicable to initial public offerings. The Commission accepted the staff recommendation, as well as the staff proposal to proceed to review the recommendations in the Task Force Report relating to the revision of certain prospectus and registration exemptions. Staff recently completed its review of the proposed exemptions and plans to bring its recommendation to the Commission in September 1998. At that time staff will seek approval to publish a detailed release in the OSC Bulletin setting out its proposals which staff anticipates will be published in the fall of 1998.

OSC/TSE Mining Standards Task Force

On June 8, 1998, a task force established by the OSC and the TSE in the wake of Bre-X published its interim report: Setting New Standards. The Report proposed new higher disclosure standards for Canadian mining companies than exist in any other major mining jurisdiction. The recommendations aim to reinforce Canada's leadership in the exploration and mining industry, ensure a high level of investor protection, and reinforce global investor confidence in the Canadian securities markets. In addition, on July 3, the CSA published for comment National Instrument 43-101 (Standards of Disclosure for Mineral Exploration, Development and Mining Properties), and its companion policy which updates and expands on existing National Policy No. 2-A and National Policy No. 22.

Rule Reformulation

Substantial progress was made in the reformulation of former deemed rules and certain other local and national policy statements into rules, policies and notices. During 1997/98, over 40 instruments were published for comment including Exempt Distributions, Prompt Offering Qualification System, Underwriting Conflicts and Communication with Beneficial Owners of Securities of a Reporting Issuer (the reformulation of National Policy 41). The Minister of Finance approved over 15 rules including Mutual Fund Sales Practices, Strip Bonds, First Trade Over a Market Outside of Ontario and Dividend or Interest Reinvestment and Stock Dividend Plans.

Reformulation Team: (from left)
Susan Greenglass, Randee Pavalow, Indira Chatterpaul
OSC Web Site

In order to assist market participants in identifying the current status of instruments that existed before the reformulation project, the OSC published in its Bulletin a Table of Concordance in January 1998. The table shows the treatment of each instrument and indicates whether the instrument has been published as a new instrument under the reformulation project, finalized as a new instrument or whether it has been or is proposed to be repealed or is under consideration.

In addition, the OSC publishes in its Bulletin a quarterly summary of publications to provide information to the public regarding rules, policies and notices. In each quarterly summary, two lists are included: one of all publications by date of publication and one of all publications by subject area.

Web Site

The OSC launched its World Wide Web site in July 1998. The site is publicly available at **www.osc.gov.on.ca**. The OSC Web site offers a variety of information and services, including investor brochures and publications; speeches and news releases; proposed and final rules, policies and notices; enforcement activities, including notices of hearing and decisions; lists of reporting issuers, and companies registered to sell securities in Ontario; information on OSC operations, and access to the *Securities Act*; and access to documents filed by reporting issuers.

National Compliance Review

The Compliance Group of the Market Operations Branch lead the second CSA National Compliance Review. A National Compliance Review is a collaborative effort by the CSA to conduct a compliance examination of a national dealer with the objective of targeting issues of mutual concern to regulators. During the year, a follow-up visit was also conducted on a coordinated basis.

Year 2000

The OSC has been concerned about the implications of the Year 2000 problem for the integrity of the capital markets in Ontario. The need to assert strong leadership in addressing the problem has become of increasing importance.

The Chair has established a Year 2000 Project Steering Committee consisting of senior OSC staff and consultants to advise the Chair and the Commission on Year 2000 initiatives. Projects within the Commission will address Year 2000 issues relating to reporting issuers, market integrity (registrants and infrastructure), communications, legal and internal systems. A CSA Year 2000 Committee will coordinate national initiatives on the year 2000.

The Commission's key Year 2000 priority is to promote industry-wide testing and contingency planning. It is leading an initiative to implement a program of industry-wide testing by June 30, 1999.

Civil Liability for Continuous Disclosure

The Commission and other members of the CSA have developed and published for comment proposed legislation that would, if adopted, introduce a limited statutory civil liability regime in respect of secondary market disclosure as was recommended by the Allen Committee in its final report. This would enable secondary market investors who are harmed by misrepresentations in disclosure documents and oral statements or by failure to make timely disclosure to bring action against issuers and other responsible parties.

The CSA believes that the legislation, if adopted, will enhance public confidence in the integrity of the Canadian capital markets and looks forward to reviewing all submissions received during the comment period which ended on August 31.

An Integrated Disclosure System

The CSA is also considering a further recommendation contained in the Allen Report, namely the adoption of an integrated disclosure system for reporting issuers.

The objectives of the CSA in pursuing this recommendation would be to improve the quality of continuous disclosure in the marketplace and streamline and simplify the prospectus process.

Continuous Disclosure Review Program

In keeping with the OSC's objective to improve the overall quality of continuous disclosure in the marketplace, staff is continuing its practice of carrying out Continuous Disclosure Review Programs. A small number of reporting issuers have been selected by staff for review of their filings, which include financial statements, MD&A, and press releases. It is expected that a report on staff's findings will be released in late 1998.

Investor Education

Investor protection is a cornerstone of the OSC's mandate. Recognizing that the best protection is prevention, the Ontario Securities Commission placed increased emphasis on investor education in 1997-98. Educational outreach is one of the non-regulatory ways in which securities regulators can assist the investor.

Between March 30 and April 3, the OSC participated in the first, hemisphere-wide Investor Education Week Campaign with regulators across Canada and throughout the Americas and the Caribbean. Twenty nations took part.

Held simultaneously, Town Hall Meetings in four locales (London, Ottawa, Sault Ste. Marie and Toronto) were linked by interactive broadcast satellite. Participants from across the province were able to speak directly to the OSC Acting Chair who was joined on stage by heads of self-regulatory organizations and industry stakeholders.

A "Tools" Launch, hosted by The Investor Learning Centre at its new Investor Resource Centre in Toronto, also showcased resources readied by securities regulators, specifically the OSC Web Site – www.osc.gov.on.ca and the CSA Investor Education Kits – Information for novice investors.

A Keynote Address by Acting Chair Jack Geller to a joint session of The Investment Funds Institute of Canada and the Toronto Board of Trade provided a forum for the announcement of the mutual fund sales practices rule which came into effect on May 1, 1998.

Several partners joined the Campaign – sponsoring related activities or contributing resources and materials. These included the Investment Dealers Association of Canada, the Canadian Securities Institute, the Investor Learning Centre of Canada, the Canadian Depository for Securities, the Canadian Investor Protection Fund, and The Investment Funds Institute of Canada.

ENFORCEMENT HIGHLIGHTS

Enforcement Highlights

The mandate of the Enforcement Branch is to protect investors and foster market integrity through firm, fair and effective enforcement of Ontario securities law. The Branch conducts a variety of investigations, including cases involving abusive trading practices, abusive sales practices, misleading disclosure, registrant misconduct, and take-over bid issues. The Enforcement Branch is comprised of three operating units: Case Assessment/Market Surveillance, Investigations and Litigation. The main function of Case Assessment/Market Surveillance is to conduct a preliminary review of all matters referred to the Enforcement Branch and to conduct reviews of trading activities on the TSE and CDN. The role of Investigations is to conduct in-depth investigations into potential breaches of Ontario securities law. The Litigation Unit provides legal advice and support for ongoing investigations and conducts proceedings on behalf of staff before the Commission and courts. As of March 31, 1998 there were 154 cases outstanding in the Enforcement Branch.

During the past year, matters involving the mutual fund industry continued to attract the attention of the Enforcement Branch. As well, the Enforcement Branch investigated a number of priority matters which involved close coordination with other Canadian securities commissions and various foreign regulators. The Enforcement Branch also continued to coordinate its activities with the various SROs and policing agencies.

Frank Mersch and Peter Cunti

On May 7, 1998, the Branch issued a Notice of Hearing alleging that Frank Mersch and Peter Cunti deliberately misled staff during the course of an investigation.

Under the terms of a settlement agreement with staff of the Commission, Mersch admitted that his conduct was contrary to the public interest and agreed to a six-month prohibition from applying for registration under the *Securities Act*. Mersch's registration was automatically suspended on May 7, 1998, when he resigned his position with Altamira. Similarly, Peter Cunti admitted his conduct was contrary to the public interest and agreed to an order removing his trading exemptions for a period of two years.

Alexis Fortuna-St. John, Antonia Storm-St. John and Phoenix Head Enterprises of Canada

After a hearing into this matter, the Commission found that, between January 1 and August 31, 1996, Alexis Fortuna-St. John, trading as Phoenix Head Enterprises, received over $3.8 million from between 800 to 1,000 individuals to invest on their behalf. Neither St. John nor Phoenix Head was registered under the *Securities Act*. Approximately $375,000 of this money was diverted to companies in which St. John or family members were interested and a further $2 million disappeared without a credible explanation.

The Commission concluded that St. John was not a person who could be safely trusted to participate in the capital markets in any way and ordered that her trading exemptions be removed permanently.

David G.C. Andrus

David G.C. Andrus, president and majority shareholder of Provident Financial Services Inc. and Provident Investment Counsel was alleged to have withdrawn $809,000 from the bank and trading accounts of three of his clients between June 1, 1996, and September 30, 1997, and deposited the funds into the trust accounts of Provident Financial Services Inc. and Provident Investment Counsel. Andrus was further alleged to have withdrawn $798,027.15 from the Provident trust accounts during the relevant time for his own direct or indirect personal use.

At the hearing of the matter, the Commission terminated Andrus' registration and permanently removed his trading exemptions.

Enforcement Branch staff: (from left)
Grace Da Silva, Melanie Sopinka, Larry Waite, John Cottrell

Wayne Stephenson, Roch Beaulieu, James Schofield, David Barnsdale, Ashton So, Ian Yeo, Mary Dawn Davy, Ahsan Khan, Mark Miller and TD Securities Inc.

Notices of Hearing were issued against nine individuals and TD Securities Inc. with respect to the distribution of a financial planning book that misrepresented, or could have misrepresented, the various salespersons' role in authorship.

Under the terms of settlement agreements reached between staff and the salespersons, the salespersons agreed that their conduct was contrary to the public interest, and their registrations were suspended for periods of between five and twenty-five days.

Under the terms of the settlement agreement reached between staff and TD Securities Inc., TD Securities implemented a comprehensive compliance policy with respect to authorship by its sales representatives to ensure proper attribution is given to all authors of both internally and externally prepared materials.

Veronika Hirsch and Sameh Magid

On November 4, 1997, Notices of Hearing were issued against Veronika Hirsch and Sameh Magid in respect of the purchase by Hirsch of special warrants issued under a private placement.

Under the terms of settlement agreements approved by both the British Columbia and Ontario Commissions, Hirsch and Magid acknowledged that their conduct was contrary to the public interest in that the documents filed in British Columbia in connection with the private placement incorrectly disclosed Hirsch as being a resident of British Columbia, the address used being the residential address of Magid. This was a false statement to the knowledge of Hirsch and Magid. Both were reprimanded and Hirsch also agreed to make a voluntary contribution of $99,573 to the B.C. Securities Commission Investors' Education Fund, this being an amount equal to the net profit she realized on the sale of the securities acquired through the private placement.

Dino P. DeLellis, William R. Kennedy and The Height of Excellence Financial Planning Group Inc.

On April 9, 1997, a Notice of Hearing was issued against Dino P. DeLellis, William R. Kennedy and the Height of Excellence Financial Planning Group Inc. Staff alleged that the Height of Excellence Financial Planning Group Inc. failed to adequately supervise DeLellis and that DeLellis accepted secret commissions, made misrepresentations to clients and generally failed to act honestly and in good faith. Kennedy was alleged to have participated in making undisclosed payments to DeLellis and making untrue statements to investors.

On August 15, 1997, the Commission approved a settlement agreement with the Height of Excellence Financial Planning Group (FPG) in which FPG agreed that its conduct was contrary to the public interest and that it failed to adequately supervise its staff. FPG received a reprimand by the Commission and agreed to pay $20,000 towards the cost of staff's investigation.

After a six-day hearing in November and December, 1997, the Commission issued a decision terminating DeLellis' registration and removing the trading exemptions for DeLellis and William Kennedy permanently. The Commission found that DeLellis had provided inappropriate investment advice, provided investment advice for the purchase and sale of securities he was not registered to trade and received split commissions for the sale of securities he was not registered to sell.

Thomas Lau, Joseph Yu and Securities Fund Holdings Ltd.

The Branch completed the prosecutions of Thomas Lau, Joseph Yu and Securities Fund Holdings Ltd. The defendants had been charged with trading in foreign currency investment contracts without being registered or filing a preliminary prospectus or prospectus. In Provincial Court proceedings, the defendants pleaded guilty and, on June 20, 1997, Lau and Yu were sentenced to six months imprisonment. Securities Fund Holdings Ltd was fined $450,000.

Altamira Management Limited

On September 12, 1997, a Notice of Hearing was issued against Altamira Management Limited in connection with trading in the shares of Dorset Exploration Ltd. by accounts managed by Altamira. Staff alleged that the trading in Dorset shares by Altamira may have had the effect of misleading market observers and the public as to the closing value of the shares on many of the trading days in question.

Under the terms of a settlement approved by the Commission, Altamira consented to a review of its trading practices and agreed to a reprimand by the Commission and an order requiring it to implement changes to its trading practices. It also agreed to pay $75,000 to the Government of Ontario to offset the cost of staff's investigation.

Canadian 88 Energy Corp., West Central Capital Corp., Gregory S. Noval and David R. DiPaolo

On September 26, 1997, a Notice of Hearing was issued against Canadian 88 Energy Corp., West Central Capital Corp., Gregory S. Noval and David R. DiPaolo in respect of the purchase and sale of common shares of Morrison Petroleums Ltd. by West Central Capital Corporation prior to the announcement by Canadian 88 Energy Corp. of its intention to make a take-over bid for Morrison.

Under the terms of a settlement agreement approved by both the Ontario and Alberta Securities Commissions, Canadian 88 Energy Corp. agreed to a reprimand, Gregory S. Noval agreed to a one-year trading ban and David R. DiPaolo and West Central Capital each agreed to a six-month trading ban. The respondents also agreed to pay $200,000 to offset the cost of the Commissions' review.

PrimeNet Communications Inc., Raymond Homer, Robert Bleasby and James Laks

On November 28, 1997, the Commission issued a Notice of Hearing against PrimeNet Communications Inc., Raymond Homer, Robert Bleasby and James Laks alleging that, PrimeNet failed to disclose a payment of $450,000 to a company controlled by David Austin, the former president and chief executive officer of PrimeNet.

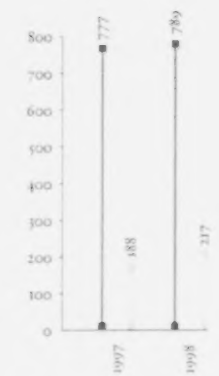
Under the terms of a settlement approved December 3, 1997, the individual respondents agreed not to serve as directors or officers of a reporting issuer for 18 months. PrimeNet received a reprimand and agreed to provide its shareholders and special warrant holders with an accounting of money received from its special warrant financing. The respondents also agreed to pay $20,000 towards the cost of staff's investigation.

FIVE YEAR STATISTICAL SUMMARY

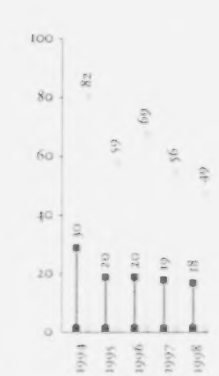
Registration

Businesses Registered	1994	1995	1996	1997	1998
Dealers – All Categories	580	644	634	687	665
Advisors – All Categories	202	241	272	302	324
Dealer and Advisor – Dual Registration	58	93	93	98	162
Others (including exempt purchasers, commodity floor traders and competitive options traders	159	167	193	191	195
Total	**999**	**1,145**	**1,192**	**1,278**	**1,346**
Businesses Registered (By Act)					
Securities Act (SA) only	905	1,035	1,059	1,144	1,193
Commodity Futures Act (CFA) only	66	69	88	85	89
Both SA and CFA	28	41	45	49	64
Total	**999**	**1,145**	**1,192**	**1,278**	**1,346**
Individuals Registered					
Salespersons	24,803	30,459	33,679	37,472	42,942
Officers, Partners and Directors	5,902	6,405	6,841	7,461	7,723
Total	**30,705**	**36,864**	**40,520**	**44,933**	**50,665**
Applications Processed					
Applications Received During Year	16,289	23,054	22,246	25,242	27,961
Applications Completed During Year	14,927	23,047	21,679	24,388	28,670

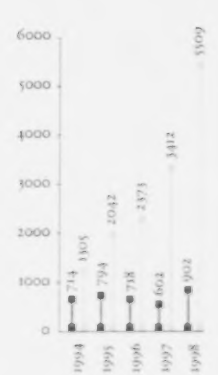
Prospectuses Filed (Note 1)



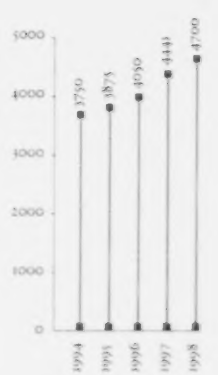
Hearings



Complaints and Inquiries



Reporting Issuers



Notes:

1. It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the Director refused to issue a final receipt.
2. The number of mutual fund prospectuses filed does not represent the total number of mutual fund issuers as in most cases a prospectus qualifies more than one fund issuer.

COMMISSION MEMBERS

Members of the Commission: (from left)
John Geller, John Howard, Stephen Adams
Derek Brown, David Brown
Patrick Vernon, Robert Korthals, Glorianne Stromberg
Morley Carscallen, Daniel Iggers (Secretary)
David Brown, Patrick Vernon, Robert Korthals, Glorianne Stromberg

The Commission meets regularly to consider policy issues. During the last fiscal period, it met 25 times. Two commissioners are available two days each week to consider proposed rulings and orders.

David A. Brown, Q.C.

was appointed Chair of the Ontario Securities Commission on April 15, 1998. Prior to his appointment, Mr. Brown was a senior corporate law partner of Davies, Ward & Beck for 28 years.

John A. Geller, Q.C.

was appointed Vice-Chair in November 1993. From November 1996 to April 1998, he served as Acting Chair. Mr. Geller previously was a senior partner with the Fasken Campbell Godfrey law firm, where he practiced corporate and securities law.

Morley P. Carscallen, F.C.A.

was appointed Vice-Chair in July 1996, having served as a Commissioner since November 1992. He is a former senior partner with the accounting firm Coopers & Lybrand. He served as a member of the Commission's Financial Disclosure Advisory Board from 1970 to 1976 and as Chairman of the FDAB in 1975 and 1976.

Kerry D. Adams

is a chartered accountant with extensive experience in the issuer and investor communities. A former partner with the accounting firm KPMG and a former investment banker with ScotiaBank, Ms. Adams has managed a group of global holding companies since establishing K. Adams & Associates Limited in 1991. Ms. Adams was appointed to the Commission in September 1996.

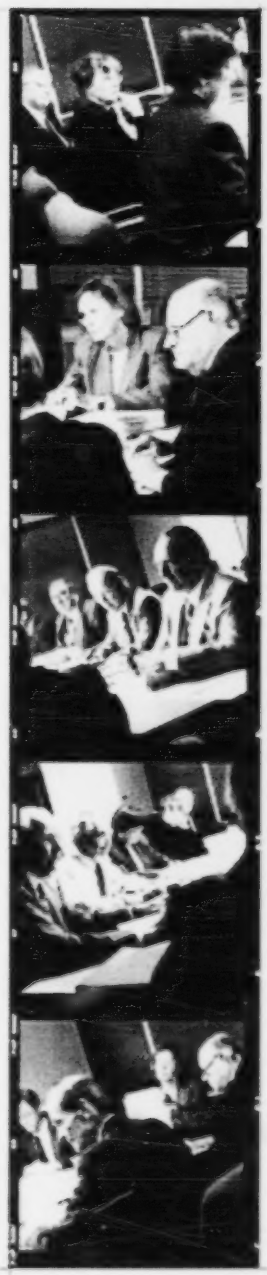
Stephen N. Adams, Q.C.

is a senior partner with the London, Ontario law firm of Harrison, Elwood, and practices in the area of corporation and securities law. For 12 years, Mr. Adams was an adjunct professor of law at the University of Western Ontario. Mr. Adams is the author of the Annotated Ontario Business Corporations Act. Mr. Adams was appointed to the Commission in December 1996.

Derek Brown

is an adjunct professor of finance at the Joseph L. Rotman Centre for Management, University of Toronto. From 1971 until his retirement in 1996, Mr. Brown was a vice-president and director of RBC Dominion Securities Inc. Mr. Brown was appointed to the Commission in October 1997.

Morley Carscallen, Kerry Adams, Glorianne Stromberg, Helen Meyer
Helen Meyer, John Geller
Stephen Adams, Stephen Paddon, Derek Brown
Patrick Vernon, Robert Korthals, Glorianne Stromberg, Kerry Adams, Morley Carscallen
Daniel Iggers (Secretary), Helen Meyer, John Geller, John Howard



J. F. (John) Howard, Q.C.

is a partner emeritus of Blake Cassels & Graydon, with extensive experience in all aspects of commercial litigation. Mr. Howard was appointed to the Commission in November 1996.

Robert W. Korthals

was president of the Toronto-Dominion Bank until his retirement in 1995. He is a past president of the Canadian Bankers Association. He was appointed a Commissioner in March 1995.

Vern Krishna, Q.C.

is a professor at the Faculty of Law, University of Ottawa, and tax counsel to the Koskie & Minsky law firm in Toronto. He serves as a bencher of the Law Society of Upper Canada and as vice-president of the Certified General Accountants Association (Ontario). He was appointed a Commissioner in July 1994 and retired from the Commission on July 20, 1997.

Helen M. Meyer

is president of Meyer Corporate Valuations Ltd., which specializes in performing valuations of public companies. She has extensive experience in the investment banking community. Ms. Meyer was appointed a Commissioner in April 1994.

R. Stephen Paddon, Q.C.

is a counsel with the law firm of Bennett Jones Verchere. He has extensive experience in corporate, securities and insurance law as well as litigation. Mr. Paddon was appointed a Commissioner in January 1998.

Glorianne F. Stromberg

practiced corporate and securities law prior to being appointed to the Commission in 1991. Ms. Stromberg served as a member of the Commission's Securities Advisory Committee from 1985 to 1990. Ms. Stromberg is the author of Regulatory Strategies for the mid-90s: Recommendations for Regulating Investment Funds in Canada prepared for the Canadian Securities Administrators in January 1995.

G. Patrick H. Vernon, Q.C.

was a senior partner of the McCarthy Tétrault law firm, where he practiced corporate and securities law. Mr. Vernon was appointed a Commissioner in November 1995.

ADVISORY BOARDS

The Commission benefits from the assistance of a number of formal advisory boards and committees, consisting of dedicated professionals. The Commission appreciates the fact that such well-qualified professionals are prepared to serve on such advisory groups and benefits greatly from their ongoing support and counsel.

Commodity Futures Advisory Board

The CFAB advises the Commission with respect to derivative instruments, including commodity futures contracts and commodity futures options. Members of the CFAB are appointed by Order-in-Council. During the fiscal year, the CFAB gave consideration to, and made recommendations to the Commission on, over-the-counter derivatives transactions and electronic trading of futures and options contracts.

The current members of the CFAB are:

Carol D. Pennycook (Chair)	Partner, Davies, Ward & Beck
Stephen J. Elgee	Director, Equity Derivatives, Nesbitt Burns
David C. Malone	Director, Valuations and Reporting, International Investment Products
William C. Rupert	Partner, Canadian Capital Markets Group Ernst & Young
James D. Sinclair	Vice-President, Newcastle Capital Management Inc.

The Commission wishes to express its gratitude to David G. Patterson, chair of the CFAB and president of Newcastle Capital Management Inc., and G. Douglas Carr, a partner of KPMG Peat Marwick Thorne, who retired from the CFAB during the fiscal year.

Financial Disclosure Advisory Board

The FDAB advises the Commission and staff on financial disclosure, accounting and auditing matters and other significant policy issues. Members of the FDAB are appointed by Order-in Council.

The current members of the FDAB are:

Patricia L. O'Malley, F.C.A. (Chair)	Partner, KPMG
Gordon W. Cetkovski, C.A.	Partner, PricewaterhouseCoopers
Patricia Meredith, F.C.A.	Executive VP, Strategic Planning, Canadian Imperial Bank of Commerce
J. Alex Milburn, Ph.D,F.C.A.	Consultant

Securities Advisory Committee

The Committee was created by OSC Policy Statement 1.7 and provides advice to the Commission and staff on a variety of legal matters, including amendments to the Act and Regulations and the formulation of rules, Commission policies and staff notices. The Committee also provides advice to the Commission as to matters that it believes should be addressed by the Commission. Terms are staggered so that about one-third of the Committee members will retire in any one year.

During the past fiscal year, the Committee devoted the bulk of its time to the Commission's policy reformulation project. Members of the Committee provided advice on an ongoing basis concerning the various initiatives undertaken during that process, both at the stage of initial formulation of policy and through commentary on draft text.

For fiscal 1997/98, the Committee consisted of the following nine individuals appointed by the Commission:

Jonathan Lampe (Chair)	Goodman Phillips & Vineberg
Richard Balfour	Tory, Tory, Deslauriers & Binnington
Craig Brod	Cleary, Gottlieb, Stein & Hamilton
Scott Freeman	Sydney & Austin
Michael J. Lang	Borden & Elliot
Margaret McNee	McMillan Binch
Michael C. Nicholas	McCarthy Tétrault
Michael Simon	Milbank, Tweed, Hadley & McCloy
Richard S. Sutin	Meighen Demers

FINANCIAL SUMMARY

Management's Discussion and Analysis
Statement of Management's Responsibility
Auditor's Report
Financial Statements

Management's Discussion and Analysis

The financial statements present the Ontario Securities Commission's results for the five month period from November 1, 1997, the date of the Commission's creation as a separate corporation without share capital, to March 31, 1998. The following comments provide an analysis of the Commission's operations and should be read in conjunction with the financial statements of the Commission. For purposes of analysis, certain comparisons have been made with unaudited results for the comparable period of last year when the Commission operated as a Schedule I regulatory agency of the Ministry of Finance.

Analysis of Operating Results

Net Income

Net income for the five months ended March 31, 1998 was $16.2 million. In accordance with the *Securities Act*, the Minister of Finance may request the return of revenues generated by the Commission in excess of its operating requirements. During the period, the Commission remitted $16.1 million to the Province resulting in retained earnings of $44,748.

Revenues

Revenue of $26.6 million was 33% higher than that for the same period the previous year. The increase was primarily generated through higher prospectus fee revenues linked to buoyant market financing activities. The Commission has four primary sources of revenue:

Prospectuses, comprised of fees for preliminary and final filings, and mutual fund renewals, accounted for 60% of total revenues. The 42% increase in these fee revenues was the primary contributor to the overall revenue increase for the period. These fees represent the most variable component of the Commission's revenue base given their close correlation to the level of market activity.

Registrations, comprised of fees for registration of dealers, advisors and salespersons, accounted for 24% of total revenues. These fee revenues increased by 18% compared with the same period the previous year.

Disclosure filings, comprised of fees related to filings by reporting issuers, increased by 56% year over year and accounted for 10% of total revenues.

Applications for Exemptive Relief, generated through assessment of applications from issuers for exemptions or modifications to filing and other requirements, increased by 46% and now represent approximately 2% of total revenues.

Revenues collected by the Commission from secondary market fees declined by 15%. Although this fee was eliminated in September 1997, revenues from this source will continue to be collected until September 1998 as registrants remit this fee with their annual renewal.

Expenditures

Total expenditures for the first five months of operations for the Commission were $10.4 million. Previous year comparisons have not been provided because the accounting relating to Ontario Securities Commission operations as a part of the Ministry of Finance was previously done on a cash basis. The Commission is in the process of completing the transition to its independent, self funded status by implementing human resource and financial policies, processes and systems. Until these transition arrangements are completed and the Commission is in a position to hire directly the additional staff it requires, the Commission has entered into a service agreement with the Ministry of Finance whereby the Ministry continues to provide services to the Commission at cost.

The Commission paid $10.0 million to the Ministry for services provided under the service agreement. Salary and related compensation costs paid to 220 staff employed to provide service to the Commission accounted for approximately 60% of these costs. The $2.2 million in expenditures on professional services fees relate primarily to legal services for enforcement activities. Lease costs for premises and related facilities were $835,093 for the period. The Commission was not responsible for paying these costs prior to November 1, 1997.

Capital Transactions

During the period the Commission purchased office furniture, equipment and computer hardware at a cost of $345,108. The Commission has yet to finalize arrangements with the Province relating to the transfer of assets used by the Commission prior to November 1997.

Liabilities

Included in the accounts payables and accruals is $4.4 million relating to expenses incurred under the service agreement and $1.3 million relating to a provision for refunds of prospectus revenues. The balance is related to other accrued expenses of the Commission.

1998/1999 Outlook

The Commission business plan includes budgeted operating expenditures of $32.8 million and a capital budget of $900,000. The operating budget provides for a planned increase of approximately 20% in staffing as well as the introduction of a more competitive compensation system. The Commission expects to be in a position to make employment offers to Ministry of Finance staff employed in its activities in the fall of 1998. The majority of new staffing will be in the enforcement and compliance programs. These resources will allow the Commission to reduce its reliance on outside legal and accounting services.

The Commission revenue forecast for 1998/1999 is $72.5 million. The Commission is committed to reviewing and revising its fee structure to reduce the current differential between total revenues and expenses and to streamline and simplify the fee structure. The fact that a significant proportion of the current revenue base is dependent on the level of market activity is a source of risk for the Commission.

A reserve fund of $10 million will be established over the next two years. The reserve will be used as an operating contingency for revenue shortfalls or unexpected expenses. The Commission expects to have sufficient liquidity to fund all its cash requirements in 1998.

The Chair of the Commission will be entering into a Memorandum of Understanding with the Minister of Finance outlining the ongoing relationships and administrative arrangements between the Commission and the Ministry.

Impact of the Year 2000 Issue

In the normal course of carrying out its regulatory responsibilities, the OSC makes extensive use of information technology to collect and process data. In this regard, the Commission is dependent on internal hardware and software systems as well as certain external systems and information providers, including SEDAR. The effective functioning of these systems is important to the efficient discharge of the Commission's responsibilities.

In July 1997, the OSC initiated a project to evaluate its exposure to Year 2000 issues and to plan the steps necessary to identify and mitigate the effects of that exposure. The first stage in that project was to complete a detailed inventory of affected software and hardware and identify priorities based on the significance of individual items to the Commission's operations. More than 90% of the inventoried items, including all high priority systems and hardware, have now been assessed for Year 2000 readiness and decisions made as to the appropriate remediation strategy. In most cases, the items still under assessment are the subject of requests for information from vendors.

In addition to software program modifications, the Commission's remediation activities include an ongoing program of significant technology upgrades involving complete replacement of software applications and acquisition of vendor software and hardware upgrades that are Year 2000 compliant. The completion of upgrades, as well as remedial work and testing, is targeted for the end of 1998, with the exception of some specific, low risk systems for which work will not be completed until early 1999. The remediation and testing program is on schedule to meet these deadlines.

The OSC, in common with many other entities, is dependent on the Year 2000 preparedness of a number of external suppliers. To determine the extent of its vulnerability to the failure of third parties to remediate Year 2000 issues, the Commission has initiated contact with significant suppliers and requested written statements of Year 2000 compliance and ongoing reports of progress towards compliance.

While the Commission is committed to taking all necessary steps to prepare itself for Year 2000, there can be no assurance that these steps will be sufficient to avoid any disruption of Commission operations. In the remainder of 1998 and the first half of 1999, the Commission will establish and test contingency plans designed to cope with the possible failure of remediation efforts relating to systems and third party interactions that are critical to the Commission's operations.

The OSC will continue to communicate proactively regarding the status of its internal systems and play an active and direct role in supporting and facilitating industry-wide testing and contingency planning.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management and the Board of Directors are responsible for the financial statements and all other information presented in this annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations. Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which appears below, outlines the scope of the Auditor's examination and opinion.

David A. Brown
Chair

AUDITOR'S REPORT

Office of the Provincial Auditor of Ontario

Bureau du vérificateur provincial de l'Ontario

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 1998 and the statements of net income and retained earnings and changes in financial position for the period from November 1, 1997 to March 31, 1998. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1998 and the results of its operations and the changes in its financial position for the period from November 1, 1997 to March 31, 1998 in accordance with generally accepted accounting principles.

Toronto, Ontario
July 20, 1998

K.W. Leishman, CA
Assistant Provincial Auditor

FINANCIAL STATEMENTS

Balance Sheet
Statement of Net Income and Retained Earnings
Statement of Changes in Financial Position
Notes to Financial Statements

BALANCE SHEET	*As at March 31, 1998*
Assets	
Current	
Cash	$ 6,016,187
Accounts receivable	59,983
Prepaid expenses	135,896
	6,212,066
Capital Assets (Note 4)	345,108
	$ 6,557,174
Liabilities	
Accounts payable and accruals	$ 6,414,182
Retained Earnings	44,748
Contributed Surplus (Note 1)	98,244
	$ 6,557,174

On behalf of the Commission

David A. Brown
Chair

Kerry D. Adams, CA
Commissioner

FINANCIAL STATEMENTS

Continued

STATEMENT OF NET INCOME AND RETAINED EARNINGS *Five month period ended March 31, 1998*

Revenue		
Fees		
Prospectus filings	$	15,850,942
Registration		6,338,231
Disclosure filings		2,778,640
Secondary market		973,981
Applications for Exemptive Relief		629,031
Miscellaneous		19,357
Recoveries		29,750
		26,619,932
Expenditures		
Service agreement (Note 5c)		10,032,307
Salaries and benefits		138,799
Travel		46,753
Professional services		153,372
Administrative		60,600
		10,431,831
Net Income		16,188,101
Retained Earnings, beginning of period		–
Less: Distributions to Province of Ontario		(16,143,353)
Retained Earnings, end of period	$	44,748

Continued

Statement of Changes in Financial Position	*Five month period ended March 31, 1998*
Net Inflow (Outflow) of cash related to the following activities	
Operating	
Net Income	$ 16,188,101
Changes in non-cash operating items	
Accounts Receivable	(59,983)
Prepaid expenses	(135,896)
Accounts payable and accruals	6,414,182
	22,406,404
Financing	
Contributions from Province of Ontario	98,244
Distributions to Province of Ontario	(16,143,353)
	(16,045,109)
Investing	
Purchase of capital assets	(345,108)
	(345,108)
Increase in cash position	6,016,187
Cash Position, beginning of period	–
Cash Position, end of period	$ 6,016,187

NOTES TO THE FINANCIAL STATEMENTS *Five Month Period ended March 31, 1998*

1. Nature of the Corporation

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the "Commission") as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

The Province of Ontario agreed to pay all amounts owing to third parties as at October 31, 1997 and as a result few liabilities were transferred to the Commission. Prior to November 1, 1997, revenues were recorded primarily on a cash basis and as a result few receivables were transferred to the Commission. The Province of Ontario transferred prepaid expenses amounting to $28,053 and accounts receivable balances of $70,191 on November 1, 1997. Upon expiration of the service agreement (see note 5c) that the Commission has entered into with the Ministry of Finance, it is expected that all of the assets necessary for the Commission to continue normal operations and any related liabilities will be transferred to the Commission.

The prepaid expenses and receivable transfer of $98,244 represent a contribution to the Commission's surplus. All future transfers of assets and liabilities will be recorded at their estimated fair value at the time of transfer.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost. Depreciation is calculated beginning in the fiscal year following acquisition, and on a straight-line basis over the estimated useful life of the asset as follows:

Office furniture and equipment	over 5 to 10 years
Computer hardware	over 2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized upon receipt of cash. Prospectus filings fees are recognized net of estimated refunds or adjustments. Continuous disclosure filing fees are recognized upon receipt.

Recovery of costs of investigations is recognized as revenue upon date of decision unless management determines there is no reasonable assurance as to ultimate collection. When there is no reasonable assurance as to ultimate collection, revenue is recognized when cash is received.

3. Commitments and Contingencies

a) The Commission is required to return fee revenues in excess of its operating requirements to the Province of Ontario.

b) The Commission will be establishing a reserve of $10 million over 2 years. This reserve will be used as an operating contingency against revenue shortfalls or unanticipated expenses.

c) The Commission is committed to annual operating lease payments for office space of $2,003,724. The lease term expires on August 31, 2005.

d) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time.

4. Capital Assets

	Cost	Accumulated Depreciation	March 31, 1998 Net Book Value
Office Furniture	$ 68,480	–	$ 68,480
Office Equipment	5,492	–	5,492
Computer Hardware	271,136	–	271,136
	$ 345,108	–	$ 345,108

NOTES TO THE FINANCIAL STATEMENTS *Continued*

5. Transactions with Province of Ontario

In the course of operations, the Commission enters into transactions with the Province of Ontario.

a) The Commission has entered into a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.

b) Assets purchased and leased by the Province of Ontario prior to November 1, 1997 are expected to be transferred to the Commission. The estimated fair value of these assets excluding the leased assets as at March 31, 1998 was $547,692.

c) The Commission has entered into a service agreement with the Ministry of Finance whereby the Ministry is providing certain services to the Commission, at cost. The service agreement is for a one year term commencing November 1, 1997. During the five month period ending March 31, 1998, the following expenditures were incurred by the Ministry of Finance:

Salaries and Benefits	$ 5,936,384
Professional Services	2,236,727
Premises	835,093
Office Supplies and Equipment	271,297
Communications	302,845
Equipment Rentals	119,673
Repairs and Maintenance	121,043
Travel	77,207
Memberships and Dues	55,326
Other	76,712
	$ 10,032,307

Included in accounts payable is $4,378,022 of accruals for expenses incurred by the Commission through the service agreement for the period ended March 31, 1998.

STATEMENT OF PRIORITIES FOR FISCAL 1998/99

Introduction

The *Securities Act* requires the Commission to deliver to the Minister, and to publish in its Bulletin by June 30 of each year, a statement by the Chair setting out the proposed priorities for the Commission for its current financial year. This Statement of Priorities for 1998/99 articulates the strategic focus for the OSC's first full year as a self-funded agency.

On November 1, 1997, Part VII of Bill 129 was proclaimed, amending the *Securities Act* and continuing the OSC as a corporation without share capital. The additional resources and increased operational flexibility provided by the new structure will provide the OSC with the ability to respond more effectively to the needs of its constituents.

In 1997, the OSC undertook a rigorous planning process and established a strategic focus on being a relevant and constructive force in the growth of Ontario's capital markets and the protection of investors. The 1998/99 Priorities continue to reflect the Commission's focus on being an effective and responsive regulator.

Context

The OSC's mandate is to protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity.

Regulatory activities must be visible, understandable and cost-effective in order to maintain public confidence in the OSC. The following principles will guide the OSC in fulfilling its mandate:

- Timely, open and efficient administration and enforcement.
- Sound and responsible harmonization of policies and co-ordination of activities with other securities regulators.
- Appropriate oversight of self-regulatory organizations (SROs).
- Regulatory intervention and costs proportionate to the significance of regulatory objectives.
- An appropriate balance between protecting investors and fostering fair and efficient markets.

In the context of its statutory mandate, the focus of the OSC will be to function as a relevant and constructive force in Ontario's capital markets through the establishment of an efficient and effective regulatory environment. The OSC will strive to maintain Ontario as an attractive place to invest by fostering a securities market which provides investment opportunities and access to capital.

Strategic Challenges Facing the OSC

The OSC recognizes the challenges in its operating environment it must address to achieve its goals. These challenges take the form of changes to the business environment, capital markets, market participants and the regulatory framework.

Global Integration of Markets

Increasingly, the business environment is subject to global influences where firms are being serviced by integrated banking, insurance and securities conglomerates that operate worldwide. Capital flows quickly from market to market. New products and trading strategies developed in one market soon spread to all.

Rapid Pace of Technological Change

Technology is driving market innovation and facilitating the creation of increasingly more sophisticated financial products, trading techniques and strategies. More information is available faster to all investors. Transaction times have shortened, as have the windows of market opportunity. Competition between markets has increased as services formerly provided locally can now be supplied from remote locations using technology.

Rapid Growth of Market for Investment Funds

Investor participation in the investment fund sector is at record levels. This participation level presents challenges to the OSC to effectively inform and protect market participants. Investors are becoming increasingly active in seeking information and education about investments.

Increasing Dominance of the Secondary Market

Investor participation in the secondary markets has increased dramatically. At the time most securities legislation was designed, initial issues of securities constituted a substantial percentage of total trading volumes. Now, secondary market trading volumes are more than fifteen times primary market activities and that dominance is increasing.

Public Confidence in the Integrity of the Market

Market participants and investors want regulators to provide clearer rules, more accessible, user-friendly services and faster response times. Investors are demanding a greater sense of confidence in the integrity of the capital markets. As a result, regulators are being expected to establish standards which ensure the appropriate training and conduct of investment advisors and other registrants.

Strategic Objectives

The Ontario Securities Commission is committed to operating in a more strategic and accountable manner and to improving the efficiency and effectiveness of its operations. The Commission and its staff recognize stakeholder expectations for greater accountability to provide superior value for the resources used in carrying out its mandate.

As part of the planning process introduced in 1997, the OSC will undertake a full planning review every three years. The nature of many of the activities undertaken by the Commission is such that some can only be achieved over a number of years. Strategic objectives will be reviewed annually to ensure they remain consistent with current market requirements.

The objectives set out below are key to carrying out the Commission's mandate and meeting the needs of our constituents.

Foster Flexible Approaches which Maintain the Integrity of Capital Markets.

- Develop a more consistent regulatory framework through reformulation of Commission policies and rules.
- In cooperation with the other members of the Canadian Securities Administrators (CSA), continue to pursue national strategies which streamline regulatory processes for market participants, including mutual reliance initiatives in the areas of prospectus and application reviews and registration of market participants.
- Continue the shift from direct regulation to effective oversight of SROs.
- Streamline compliance requirements and enhance capital market access for small business.
- Continue to update and improve the regulatory regime related to mutual funds.

Ensure Fair, Firm and Effective Enforcement of Ontario Securities Law

- Optimize deterrence of market breaches through greater enforcement presence and visibility.
- Develop and implement risk based approaches to enforcement activities, including improved case assessment processes and increased focus on continuous disclosure reviews.
- Urge amendment of the legislation to introduce civil liability for misrepresentations in continuous disclosure documents and statements.
- Enhance regulatory efficiency and effectiveness through greater cooperation with other securities regulators and related enforcement agencies.

Communicate Proactively with Market Participants

- Implement education programs to enhance investor understanding and knowledge.
- Develop and implement initiatives to advise stakeholders of emerging investment issues.
- Improve the quality, consistency and timeliness of information provided to the public.
- Formalize communication processes and develop/strengthen relationships with the media and stakeholders.

Achieve Operational Excellence

- Complete the transition of the OSC to more independent status to meet current and future service demands.
- Develop and implement a human resources management framework which will allow the OSC to retain and attract required specialized expertise.
- Identify and address training needs and priorities.
- Implement information technology initiatives to improve operational program delivery.
- Enhance accountability by improving the performance management program. Establish internal operational performance measures related to quality, consistency, cost of service and timeliness.

Priorities for 1998/99

1998/99 will be a year of transition as the OSC faces the immediate challenge of completing the move to self-funded status. The resources associated with self-funding will be put in place over a two year period. In 1998/99, the process of hiring significant numbers of additional staff in the Market Operations and Enforcement Branches will begin.

During the first transition year, resources will be focused on the following key priorities:

- Developing the infrastructure required to effect the transition to a self-funded agency and recruiting additional skilled staff.
- Monitoring and coordinating industry progress in identifying and addressing Year 2000 issues.
- Harmonizing regulatory standards and completing memoranda of understanding in support of mutual reliance initiatives with other securities regulators in Canada.
- Continuing and substantially completing the Reformulation process.
- Finalizing responses to the TSE Report on Fragmentation and the Small Business Financing Task Force Report.
- Developing and implementing an effective program of oversight for self-regulatory organizations, including the new SRO for mutual fund dealers.
- Developing requirements for an integrated disclosure system.
- Developing and implementing new investor education programs.
- Commencing a review of fees in consultation with market participants and other Canadian securities regulators to develop a more stable, equitable revenue base.

In 1997/98, substantial progress was made in implementing OSC priorities. Draft legislation was prepared in response to the Allen Report recommendations and has been recommended to the government. With other members of the CSA, substantial work was undertaken to advance the mutual reliance initiative, including the drafting of a memorandum of understanding. Significant work was undertaken related to mutual funds: the sales practice rule was made in final form and the formation of a new self regulatory organization for mutual fund dealers is in process. Reformulation of rules continued and over twenty rules were finalized. In the area of investor education, the Commission participated extensively with other CSA members in activities related to Investor Education Week.

The OSC continues to work on other priorities such as enforcement, streamlining regulatory processes for registration and application review and introducing technology upgrades to more efficiently support the delivery of services. Program operational priorities for 1998/99 are set out in more detail below.

Operational Priorities

In the context of the longer term strategic objectives outlined above, each program area of the OSC has established operational priorities for the 1998/99 fiscal year. The priorities include the OSC's participation in the proposed initiatives set out by the CSA in its 1998/99 strategic plan.

Corporate OSC

- Raise the awareness of the Year 2000 issue in financial markets generally and among securities market participants in particular. Provide guidance to market participants as to their obligations under securities law regarding disclosure relating to the Year 2000. Encourage testing among market participants. Establish an industry wide committee to monitor progress and ensure the coordination of Year 2000 activities.

Market Operations

- Continue to shift registrant regulation away from direct regulation towards the oversight of SROs:
    - Continue to perform risk-based compliance reviews of registrants.
    - Develop and implement a program to conduct risk-based compliance reviews of advisors.
    - Require securities dealers and mutual fund dealers to become members of recognized SROs.
    - Develop and implement an SRO regulatory compliance review program.
    - Assist in the training of SRO compliance and examination staff.
- Participate in the implementation of mutual reliance systems among CSA members and assist with the provision of related training programs.

- Simplify the registration system by developing and commencing the implementation of a national approach to the management of registration information including a national electronic registration database, streamlined categories of registration and restructuring registration fees.

- Increase the emphasis on issues and activities relevant to the secondary market. Devote more resources to reviewing continuous disclosure filings of reporting issuers, particularly in the Canadian Dealing Network (CDN) market. Determine appropriate terms and conditions for recognition of CDN as a quotation and reporting system.

- Seek changes to the securities regulatory framework to introduce a more stringent, integrated disclosure system, including civil liability for misrepresentations in disclosure documents.

- Revise and streamline the requirements for applications for exemptive relief in order to eliminate routine applications and focus on novel or complex applications.

- Prepare an insider trading filing guide and develop (with Enforcement Branch) a program for selective review of insider filings.

Enforcement

- Hire skilled investigation and litigation staff to deal with the volume of complex cases expected from the greater emphasis in Market Operations on the review of continuous disclosure documents. The Branch will achieve greater coordination with the Market Operations and Corporate Relations Branches in order to effectively manage the additional investigations arising from increased emphasis on continuous disclosure and compliance review of mutual fund dealers. Investigation backlogs will be substantially eliminated.

- Devote greater resources to SRO oversight activities, through review, with other Branches, of matters referred from the SROs, review of SRO investigation files and on-site audits of SRO enforcement activities including TSE/CDN surveillance processes.

- Select files for investigation which involve issues of a serious and systemic nature and streamline the case assessment and case management process in order to maximize the impact of investigative efforts.

- Improve the quality and timeliness of information through greater cooperation with the TSE and other enforcement organizations and by developing and enhancing current and new technologies.

- Ensure that activities are coordinated with other regulators and law enforcement agencies.

Policy Development

- Complete the reformulation of the OSC's existing deemed rules into formal rules and policies.
- Finalize regulatory responses to the TSE Report on Market Fragmentation and the Small Business Financing Task Force Report.

Corporate Relations

- Develop and implement a comprehensive communications strategy which will include:
  - Strategic communications practices in support of the Commission's priorities and objectives.
  - Media and public relations communications protocols.
- Complete a process review of the Inquiries and Complaints unit and implement the recommendations.
- Implement investor education initiatives.

Corporate Services

- Support the administrative transition of the OSC to independent, self-funded status by developing and implementing human resource and financial policies, procedures and systems.
- Maximize technology opportunities to improve program delivery and position the OSC to be responsive to developments in the regulated marketplace.
  - Complete the technology architecture project and update the OSC strategic information technology plan.
  - Implement the recommendations of the CSA technology study in partnership with other members of the CSA and, where appropriate, SROs.

Conclusion

The priorities identified for the 1998/99 fiscal year reflect the continued focus of the OSC on functioning as a relevant and constructive force in Ontario's capital.

ABBREVIATIONS

Act	Ontario Securities Act
CDN	Canadian Dealing Network Inc.
CDS	Canadian Depository for Securities Ltd.
CFA	Commodity Futures Act
CFAB	Commodity Futures Advisory Board
CICA	Canadian Institute of Chartered Accountants
CSA	Canadian Securities Administrators
FDAB	Financial Disclosure Advisory Board
IDA	The Investment Dealers Association of Canada
IFIC	The Investment Funds Institute of Canada
IOSCO	International Organization of Securities Commissions
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MFDA	Mutual Fund Dealers Association
MOU	Memorandum of Understanding
OSCB	Ontario Securities Commission Bulletin
Regulation	Regulations promulgated under the Act
SAC	Securities Advisory Committee
SEC	US Securities and Exchange Commission
SEDAR	System for Electronic Document Analysis & Retrieval
SRO	Self-Regulatory Organization
TFE	The Toronto Futures Exchange
TSE	The Toronto Stock Exchange

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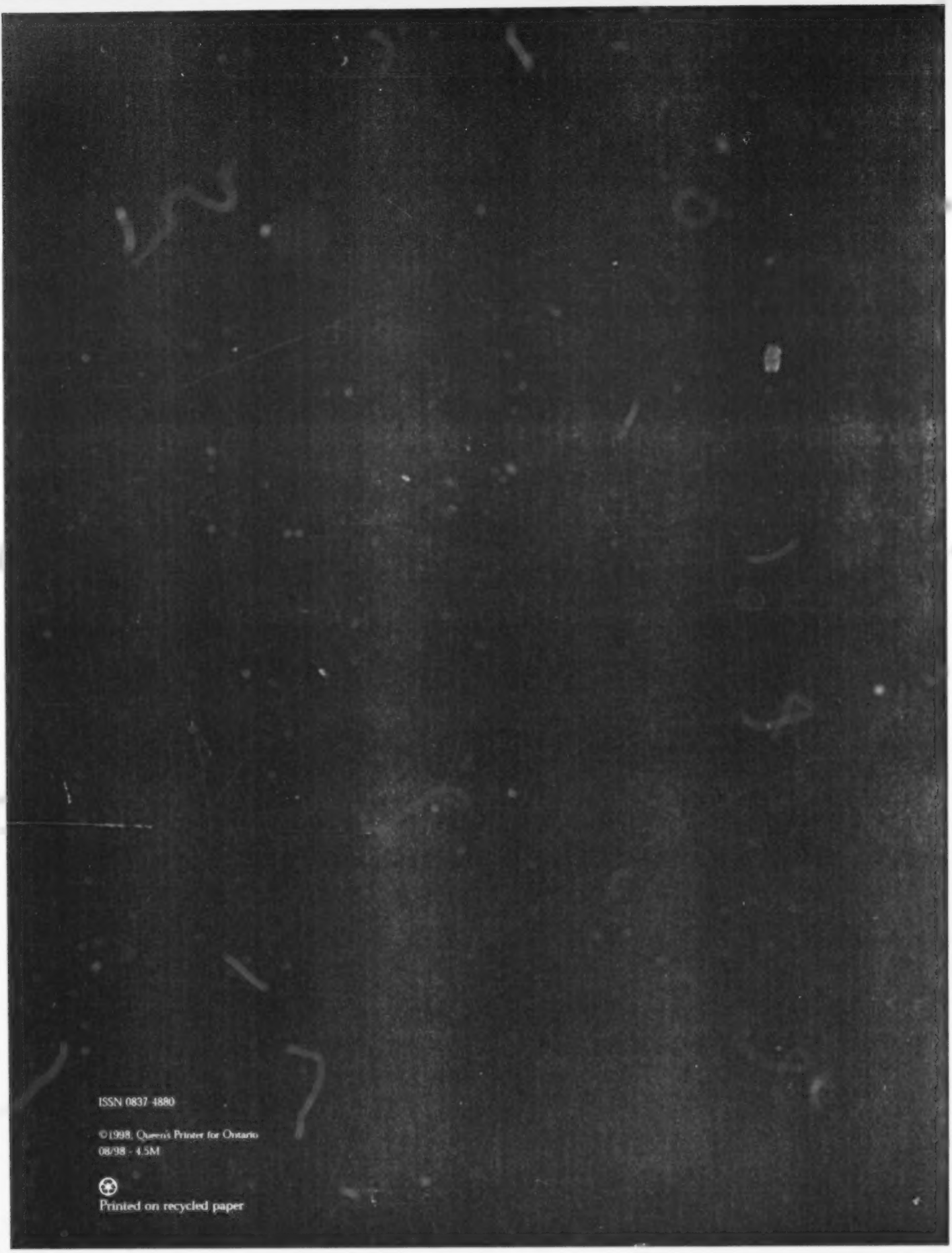

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